



# **Debarment and Suspension of Government Contractors: An Overview of the Law Including Recently Enacted and Proposed Amendments**

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## Summary

Debarment and suspension are among the techniques agencies use to ensure that they deal only with contractors who are “responsible” in fulfilling their legal and contractual obligations. Debarment generally removes contractors’ eligibility for federal contracts for a fixed period of time, while suspension removes their eligibility for the duration of an investigation or litigation. Persons may be debarred or suspended from federal contracting on procurement or non-procurement grounds. Nonprocurement debarments are discussed in a separate report, CRS Report R40993, *Debarment and Suspension Provisions Applicable to Federal Grant Programs*, by Carol J. Toland. However, all persons excluded on any grounds are listed in the Excluded Parties List System (EPLS), which contracting officers must check before awarding a contract.

Some statutes require or allow agency officials to exclude contractors that have engaged in conduct prohibited under the statute. Such statutory debarments and suspensions are federal-government-wide; they are often mandatory, or at least beyond agency heads’ discretion; and they are punishments. Statutes prescribe the debarments’ duration, and agency heads generally cannot waive the exclusion.

The Federal Acquisition Regulation (FAR) also authorizes debarment and suspension of contractors. Such administrative debarments can result when contractors are convicted of, found civilly liable for, or found by agency officials to have committed certain offenses, or when other causes affect contractor responsibility. Administrative suspensions can similarly result when contractors are suspected of or indicted for certain offenses, or when other causes affect contractor responsibility. Administratively debarred or suspended contractors are excluded from contracts with executive branch agencies. Administrative exclusions are discretionary and can be imposed only to protect government interests. Agencies can use administrative agreements instead of debarment and can continue the current contracts of debarred contractors. The seriousness of a debarment’s cause determines its length, which generally cannot exceed three years, but agency heads may waive administrative exclusions for compelling reasons.

Because they are dealing with the federal government, contractors are entitled to due process before being excluded from government contracts, although the nature of the process due to them varies for debarments and suspensions. In addition to depriving the contractor of due process, conduct that effectively excludes a contractor without officially debarring or suspending it may also constitute improper *de facto* debarment. Further, agencies could be found to have violated the Administrative Procedure Act if they exclude a contractor based upon circumstances that the agency was aware of when it previously found the contractor sufficiently “responsible” to be awarded a federal contract.

The magnitude of federal spending on contracts, coupled with recent instances of alleged contractor misconduct, has prompted Congress to consider ways to make debarment and suspension more effective means of ensuring that the government does not deal with nonresponsible contractors. The 111<sup>th</sup> Congress has enacted several statutes pertaining to debarment and suspension and is considering additional legislation (e.g., P.L. 111-8, P.L. 111-84, P.L. 111-117, P.L. 111-118, P.L. 111-195, H.R. 595, H.R. 1334, H.R. 1668, H.R. 1983, H.R. 2194, H.R. 2349, H.R. 2568, H.R. 2708, H.R. 2825, H.R. 3492, H.R. 3922, H.R. 4280, H.R. 4321, H.R. 5136, H.R. 5265, H.R. 5366, H.R. 5726, S. 265, S. 2782, S. 3636, S. 3455).

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**A**s a general rule, government agencies contract with the lowest qualified responsible bidder or offeror. Debarment and suspension are among the techniques that government agencies use to ensure that they contract with only “responsible” bidders or offerors because they allow the government to exclude contractors from receiving government contracts.<sup>1</sup> Debarred contractors are ineligible for government contracts for a fixed period of time, which can vary depending upon the authority under which the contractor is debarred and the seriousness of the conduct underlying the debarment; while suspended contractors are ineligible for the duration of any investigation into or litigation involving their conduct. Persons may be debarred or suspended (i.e., excluded) from federal contracting on procurement or nonprocurement grounds. This report focuses upon exclusions on procurement grounds.<sup>2</sup> It surveys the authorities requiring or allowing federal agencies to debar or suspend contractors, due process and other protections for contractors, and recently enacted and proposed amendments to the laws governing debarment and suspension.

The magnitude of federal spending on contracts, coupled with recent instances of alleged contractor misconduct, has prompted congressional and public interest in debarment and suspension. The 111<sup>th</sup> Congress has enacted several statutes pertaining to debarment and suspension and is considering additional legislation (e.g., P.L. 111-8, P.L. 111-84, P.L. 111-117, P.L. 111-118, P.L. 111-195, H.R. 595, H.R. 1334, H.R. 1668, H.R. 1983, H.R. 2194, H.R. 2349, H.R. 2568, H.R. 2708, H.R. 2825, H.R. 3492, H.R. 3922, H.R. 4280, H.R. 4321, H.R. 5136, H.R. 5265, H.R. 5366, H.R. 5726, S. 265, S. 2782, S. 3636, S. 3455).

## Authorities Requiring or Allowing Exclusion

Contractors can currently be debarred or suspended under federal statutes or under the Federal Acquisition Regulation (FAR), an administrative rule governing contracting by executive branch agencies.<sup>3</sup> There is only one explicit overlap between the causes of debarment and suspension under statute and those under the FAR, involving debarments and suspensions for violations of the Drug-Free Workplace Act of 1988.<sup>4</sup> However, the “catch-all” provisions of the FAR—which allow (1) debarment for “any ... offense indicating a lack of business integrity or business honesty” and (2) debarment or suspension for “any other cause of [a] serious or compelling

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<sup>1</sup> Agencies also use responsibility determinations for this purpose. Prior to awarding a federal contract, the contracting officer must determine that the contractor is sufficiently “responsible” to perform that contract. *See generally* 48 C.F.R. §§ 9.100-9.108-5; CRS Report R40633, *Responsibility Determinations Under the Federal Acquisition Regulation: Legal Standards and Procedures*, by Kate M. Manuel. Statutory prohibitions upon contracting with specific entities can similarly be used for this purpose, although they could be found to constitute unconstitutional bills of attainder in some cases. *See, e.g.,* CRS Report R40826, *The Proposed “Defund ACORN Act,” the Continuing Resolution, and the Consolidated Appropriations Act: Are They Bills of Attainder?*, by Kenneth R. Thomas.

<sup>2</sup> Nonprocurement debarments are discussed in a separate report, CRS Report R40993, *Debarment and Suspension Provisions Applicable to Federal Grant Programs*, by Carol J. Toland.

<sup>3</sup> The FAR is promulgated by the General Services Administration (GSA), the Department of Defense (DOD), and the National Aeronautics and Space Administration (NASA) under the authority of the Office of Federal Procurement Policy Act of 1974. *See* Office of Federal Procurement Policy Act of 1974, P.L. 93-400, 88 Stat. 796 (codified at 41 U.S.C. §§ 401-438); DOD, GSA & NASA, Establishing the Federal Acquisition Regulation: Final Rule, 48 Fed. Reg. 42,102, 42,142 (Sept. 19, 1983).

<sup>4</sup> The Drug-Free Workplace Act of 1988, P.L. 100-690, §§ 5151-5160, 102 Stat. 4181 (codified at 41 U.S.C. §§ 701-07), is mentioned in FAR 9.406-2(b)(1)(ii) and 9.407-2(a)(4), which corresponds to 48 C.F.R. § 9.406-2(b)(1)(ii) and 9.407-2(a)(4).

nature”<sup>5</sup>—could potentially make the same conduct grounds for debarment or suspension under statute and under the FAR.

## Statutes Requiring or Allowing Exclusion

Some federal statutes include provisions specifying that contractors who engage in certain conduct prohibited under the statute shall or may be debarred or suspended from future contracts with the federal government.<sup>6</sup> Because they are designed to provide additional inducement for contractors’ compliance with the statutes, such statutory debarments and suspensions are also known as inducement debarments and suspensions. The terms “statutory debarment” and “statutory suspension” are also used in reference to exclusions that result under executive orders,<sup>7</sup> even though executive orders are not statutes, as a way of grouping exclusions that result from executive orders with other inducement-based exclusions and contrasting them with administrative or procurement exclusions.

Statutes providing for debarment and suspension often require that the excluded party be convicted of wrongdoing under the statute, but at other times, findings of wrongdoing by agency heads suffice for exclusion.<sup>8</sup> Sometimes the exclusion applies only to certain types of contractors, or dealings with specified agencies (e.g., institutions of higher education who contract with the government, contracts with the Department of Defense).<sup>9</sup> Most of the time, however, the exclusion applies more broadly to all types of contractors dealing with all federal agencies.<sup>10</sup> Persons identified by statute—often the head of the agency administering the statute requiring or allowing exclusion—make the determinations to debar or suspend contractors.<sup>11</sup> Debarments last for a fixed period specified by statute, while suspensions last until a designated official finds that the contractor has ceased the conduct that constituted its violation of the statute.<sup>12</sup> Generally, statutory exclusions can only be waived by a few officials under narrow circumstances, if at all.<sup>13</sup> Agency heads generally cannot waive exclusions to allow debarred or suspended contractors to contract with their agency. **Table 1** surveys the main statutory debarment and suspension provisions presently in effect.

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<sup>5</sup> 48 C.F.R. § 9.406-2(a)(5) & (c); 48 C.F.R. § 9.407-2(c).

<sup>6</sup> *See, e.g.*, 21 U.S.C. § 862 (authorizing debarment for violations of federal or state controlled substance laws).

<sup>7</sup> *See, e.g.*, Executive Order 11246, as amended (providing for suspension of contractors who fail to comply with equal employment opportunity and affirmative action requirements).

<sup>8</sup> *Compare* 21 U.S.C. § 862 (debarment based on conviction) *with* 41 U.S.C. § 10(b) (debarment based on agency head’s findings).

<sup>9</sup> *See, e.g.*, 10 U.S.C. § 983 (debarment for institutions of higher education only); 48 C.F.R. § 209.470 (same); 10 U.S.C. § 2408 (debarment from Department of Defense contracts only).

<sup>10</sup> *See, e.g.*, 40 U.S.C. § 3144 (government-wide debarment for failure to pay wages under the Davis-Bacon Act).

<sup>11</sup> *See, e.g.*, 42 U.S.C. § 7606 (Administrator of the Environmental Protection Agency to debar contractors for certain violations of the Clean Air Act).

<sup>12</sup> *Compare* 41 U.S.C. § 701(d) (providing for debarment for up to five years) *with* 33 U.S.C. § 1368 (suspensions for certain violations of the Clean Water Act end with the violation).

<sup>13</sup> *Compare* 33 U.S.C. § 1368 (allowing the President to waive a debarment “in the paramount interests of the United States” with notice to Congress) *with* 40 U.S.C. § 3144 (making no provisions for waiver).

**Table I. Statutory Debarments and Suspensions**

<b>Statute</b>	<b>Cause of Debarment</b>	<b>Mandatory or Discretionary</b>	<b>Decision Maker</b>	<b>Duration &amp; Scope</b>	<b>Waiver of Debarment</b>
Buy American Act (41 U.S.C. § 10(b))	Violations of the Buy American Act in constructing, altering, or repairing any public building or work in the United States using appropriated funds	Mandatory	Head of the agency that awarded the contract under which the violation occurred	3 years; government-wide	Not provided for
Clean Air Act (42 U.S.C. § 7606)	Conviction for violating 42 U.S.C. § 7413(c)	Mandatory	EPA Administrator	Lasts until EPA Administrator certifies the condition is corrected; government-wide <i>but</i> limited to the facility giving rise to the conviction	Waiver by President when he or she determines it is in the paramount interests of the United States and notifies Congress
Clean Water Act (33 U.S.C. § 1368)	Conviction for violating 33 U.S.C. § 1319(c)	Mandatory	EPA Administrator	Lasts until EPA Administrator certifies the condition is corrected; government-wide <i>but</i> limited to the facility giving rise to the conviction	Waiver by President when he or she determines it is in the paramount interests of the United States and notifies Congress
Davis-Bacon Act (40 U.S.C. § 3144) <sup>a</sup>	Failure to pay prescribed wages for laborers and mechanics	Mandatory	Secretary of Labor	3 years; government-wide	Not provided for
Drug-Free Workplace Act of 1988 (41 U.S.C. § 701(d))	Violations of the act as shown by repeated failures to comply with its requirements, or employing numerous individuals convicted of criminal drug violations	Mandatory	Head of the contracting agency	Up to 5 years; government-wide	Waiver under FAR procedures
Executive Order 11246, as amended	Failure to comply with equal employment opportunity and affirmative action requirements	Discretionary	Secretary of Labor	Lasts until the contractor complies with the EEO and affirmative action requirements; government-wide	Not provided for
Military Recruiting on Campus (10	Policy or practice prohibiting military recruiting on	Mandatory	Secretary of Defense	Lasts so long as the policy or practice	Not provided for

Statute	Cause of Debarment	Mandatory or Discretionary	Decision Maker	Duration & Scope	Waiver of Debarment
U.S.C. § 983; 48 C.F.R. § 209.470)	campus			triggering the suspension; limited to Department of Defense Contracts	
Service Contract Act (41 U.S.C. § 354)	Failure to pay compensation due to employees under the act	Mandatory	Secretary of Labor or the head of any agency	3 years; government-wide	Waiver by the Secretary of Labor because of unusual circumstances
Walsh-Healey Act (41 U.S.C. § 37)	Failure to pay the minimum wage, requiring mandatory and uncompensated overtime, use of child labor, or maintenance of hazardous working conditions	Mandatory	Secretary of Labor	3 years; government-wide	Waiver by the Secretary of Labor; no criteria for waiver specified
Sudan Accountability and Divestment Act (P.L. 110-174)	Falsely certifying that the contractor does not “conduct business operations” in the Sudan	Discretionary	Any executive-branch agency head	3 years; government-wide	Not provided for

**Source:** Congressional Research Service.

**Notes:** The term “statutory” is used here, as is customary, to contrast all types of inducement exclusions—whatever their legal basis—with those exclusions under the FAR that are designed to protect the government’s interests in the procurement process.

There are two other statutory provisions discussing debarment that are not included in this table because they provide for personal debarment. Section 862 of Title 21 of the United States Code allows the court sentencing an individual for violating federal or state laws on the distribution of controlled substances to debar that individual for up to one year, in the case of first-time offenders, or for up to five years, in the case of repeat offenders. Section 2408 of Title 10 of the United States Code similarly prohibits persons who have been convicted of fraud or any other felony arising out of a contract with DOD from working in management or supervisory capacities on any DOD contract, or engaging in similar activities. Contractors who knowingly employ such “prohibited persons” are themselves subject to criminal penalties.

- a. The statutory debarment provided for in the Davis-Bacon Act is better known under its former location within the United States Code, 40 U.S.C. § 276a-2(a).

## Exclusion Under the FAR

As a matter of policy, the federal government seeks to “prevent improper dissipation of public funds”<sup>14</sup> in its contracting activities by dealing only with responsible contractors.<sup>15</sup> Debarment

<sup>14</sup> *United States v. Bizzell*, 921 F.2d 263, 267 (10<sup>th</sup> Cir. 1990) (“It is the clear intent of debarment to purge government programs of corrupt influences and to prevent improper dissipation of public funds. Removal of persons whose participation in those programs is detrimental to public purposes is remedial by definition.”) (internal citations continued...)



and suspension promote this policy by precluding agencies from entering into new contracts with contractors whose prior violations of federal or state law, or failure to perform under contract, suggest they are nonresponsible.<sup>16</sup> However, because exclusions under the FAR are designed to protect the government's interests, they may not be imposed solely to punish prior contractor misconduct.<sup>17</sup> Federal courts may overrule challenged agency decisions to debar contractors when agency officials seek to punish the contractor—rather than protect the government—in making their exclusion determinations.<sup>18</sup>

Where grounds for debarment or suspension exist, as discussed below, any agency may act to exclude the contractor, although exclusions are most commonly initiated by the agency under or in regards to whose contract the alleged misconduct occurred.<sup>19</sup>

## Debarment

The FAR allows agency officials to debar contractors from future executive branch contracts under three circumstances. First, debarment may be imposed when a contractor is convicted of or found civilly liable for any integrity offense. Integrity offenses include the following:

- fraud or criminal offenses in connection with obtaining, attempting to obtain, or performing a public contract or subcontract
- violations of federal or state antitrust laws relating to the submission of offers
- embezzlement, theft, forgery, bribery, falsification or destruction of records, making false statements, tax evasion, violating federal criminal tax laws, or receipt of stolen property
- intentional misuse of the “Made in America” designation
- other offenses indicating a lack of business integrity or honesty that seriously affect the present responsibility of a contractor<sup>20</sup>

Second, in the absence of convictions or civil judgments, debarment may be imposed when government officials find, by a preponderance of the evidence, that the contractor committed certain offenses. These offenses include the following:

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(...continued)

omitted).

<sup>15</sup> 48 C.F.R. § 9.402(a) (directing agency contracting officers to “solicit offers from, award contracts to, and consent to subcontracts with responsible contractors only”).

<sup>16</sup> *See id.* (“Debarment and suspension are discretionary actions that ... are appropriate means to effectuate [the] policy [of dealing only with responsible contractors].”).

<sup>17</sup> 48 C.F.R. § 9.402(b) (“The serious nature of debarment and suspension requires that these sanctions be imposed only in the public interest for the Government’s protection and not for purposes of punishment.”).

<sup>18</sup> *See, e.g.,* *IMCO, Inc. v. United States*, 97 F.3d 1422, 1427 (Fed. Cir. 1996) (upholding an agency’s debarment determination but noting that the outcome would have been different had the debarment been imposed for purposes of punishment).

<sup>19</sup> *See, e.g.,* *Deborah Billings, EPA Lifts Temporary Suspension of IBM for Misconduct on Agency Contract Bid*, 89 *Fed. Cont. Rep.* 371 (Apr. 4, 2008). In this case, the EPA suspended IBM because of IBM’s alleged misconduct when bidding on an EPA contract. At the time, IBM had contracts with numerous other federal agencies.

<sup>20</sup> 48 C.F.R. § 9.406-2(a)(1)-(5).

- serious violations of the terms of a government contract or subcontract<sup>21</sup>
- violations of the Drug-Free Workplace Act of 1988<sup>22</sup>
- intentionally affixing a “Made in America” label, or similar inscription, on ineligible products
- commission of an unfair trade practice as defined in Section 201<sup>23</sup> of the Defense Production Act
- delinquent federal taxes in an amount exceeding \$3,000<sup>24</sup>
- knowing failure by a principal to timely disclose to the government credible evidence of (1) violations of federal criminal laws involving fraud, conflict of interest, bribery, or gratuity offenses covered by Title 18 of the United States Code; (2) violations of the civil False Claims Act; or (3) significant overpayments on the contract<sup>25</sup> that occurred in connection with the award, performance or closeout of a federal contract or subcontract and were discovered within three years of final payment<sup>26</sup>

Debarment can also result, under this provision of the FAR, when the Secretary of Homeland Security or the Attorney General finds, by a preponderance of the evidence, that a contractor has not complied with the employment provisions of the Immigration and Nationality Act.<sup>27</sup>

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<sup>21</sup> For purposes of the FAR, serious violations of the terms of a government contract or subcontract include (1) willful failure to perform in accordance with a term of the contract or (2) a history of failure to perform or unsatisfactory performance under contract. 48 C.F.R. § 9.406-2(b)(1)(i)(A)-(B).

<sup>22</sup> Such violations include (1) failure to comply with the requirements in Section 52.223-6 of the FAR or (2) employment of so many persons who have been convicted of violating criminal drug statutes in the workplace as to indicate that the contractor failed to make good faith efforts to provide a drug-free workplace. 48 C.F.R. § 9.406-2(b)(1)(ii)(A)-(B). FAR 52.223-6 requires that contractors (1) publish a statement notifying employees that the manufacture, distribution, possession, or use of controlled substances in the workplace is prohibited and specifying actions to be taken in response to employee violations; (2) establish drug-free awareness programs to inform employees of the policy; (3) provide employees with a written copy of the policy; (4) notify employees that their continued employment is contingent upon their compliance with the policy; (5) notify agency contracting officials of employee convictions for violations of controlled substance laws; and (6) take steps to terminate or ensure treatment of employees convicted of violating controlled substance laws.

<sup>23</sup> Section 201 covers (1) violations of Section 337 of the Tariff Act of 1930; (2) violations of agreements under the Export Administration Act of 1979 or similar bilateral or multilateral export control agreements; or (3) knowingly false statements regarding material elements of certifications concerning the foreign content of an item.

<sup>24</sup> Federal taxes are considered delinquent, for purposes of this provision, when (1) tax liability is finally determined and (2) the taxpayer is delinquent in making payment. *See* 48 C.F.R. § 9.406-2(b)(v)(A)(1)-(2).

<sup>25</sup> Overpayments resulting from contract financing payments, as defined under 48 C.F.R. § 32.001, are excluded here. *See* 48 C.F.R. § 9.406-2(b)(vi)(C).

<sup>26</sup> 48 C.F.R. § 9.406-2(b)(1)(i)-(vi). This ground for debarment was added to the FAR by the Close the Contractor Fraud Loophole Act, §§ 6101-6103 of the Supplemental Appropriations Act of 2008 (P.L. 110-252), which also amended the FAR to require that contractors timely notify agency officials of overpayments or federal crimes connected with the award of a “covered contract or subcontract.” *See* 48 C.F.R. §§ 3.1000-3.1004. Covered contracts and subcontracts are those that are greater than \$5 million in amount and more than 120 days in duration, regardless of whether they are performed outside the United States or include commercial items. P.L. 110-252, §§ 6101-03, 122 Stat. 2323 (June 30, 2008). Previously, under FAR §§ 9.405 and 52.209-5(a), contractors with awards worth more than \$30,000 had to disclose the existence of indictments, charges, convictions, or civil judgments against them. However, disclosure of the existence of legal proceedings is different from disclosure of grounds on which future legal proceedings could potentially be initiated.

<sup>27</sup> 48 C.F.R. § 9.406-2(b)(2).

Third, and finally, debarment may be imposed whenever an agency official finds, by a preponderance of the evidence, that there exists “any other cause of so serious or compelling a nature that it affects the present responsibility of a contractor.”<sup>28</sup>

Debarments last for a “period commensurate with the seriousness of the cause(s),” generally not exceeding three years.<sup>29</sup> As discussed below, due process generally requires that contractors receive written notice of and the opportunity for a hearing regarding proposed debarments.<sup>30</sup> Debarment-worthy conduct by a contractor’s officers, directors, shareholders, partners, employees, or other associates can be imputed to the contractor, and vice versa.<sup>31</sup>

## **Suspension**

The FAR also allows agency officials to suspend government contractors when they suspect, upon adequate evidence, any of the following offenses, or when contractors are indicted for any of the following offenses:

- fraud or criminal offenses in connection with obtaining, attempting to obtain, or performing a public contract
- violation of federal or state antitrust laws relating to the submission of offers
- embezzlement, theft, forgery, bribery, falsification or destruction of records, making false statements, tax evasion, violations of federal criminal tax laws, or receipt of stolen property
- violations of the Drug-Free Workplace Act of 1988<sup>32</sup>
- intentional misuse of the “Made in America” designation
- unfair trade practices, as defined in Section 201 of the Defense Production Act<sup>33</sup>
- delinquent federal taxes in an amount exceeding \$3,000<sup>34</sup>
- knowing failure by a principal to timely disclose to the government credible evidence of (1) violations of federal criminal laws involving fraud, conflict of interest, bribery, or gratuity offenses covered by Title 18 of the United States Code; (2) violations of the civil False Claims Act; or (3) significant overpayments on the contract<sup>35</sup> that occurred in connection with the award,

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<sup>28</sup> 48 C.F.R. § 9.406-2(c).

<sup>29</sup> 48 C.F.R. § 9.406-4(a)(1). Debarments are limited to one year for violations of the Immigration and Nationality Act, but can last up to five years for violations of the Drug-Free Workplace Act. 48 C.F.R. § 9.406-4(a)(1)(i)-(ii). The FAR allows debarring officials to extend the debarment for an additional period if they determine that an extension is necessary to protect the government’s interests. 48 C.F.R. § 9.406-4(b). Extension cannot be based solely upon the facts and circumstances upon which the initial debarment was based, however. *Id.*

<sup>30</sup> 48 C.F.R. § 9.406-3. When debarment is based on a conviction, the hearing that the contractor received prior to the conviction suffices for due process in the debarment proceeding.

<sup>31</sup> 48 C.F.R. § 9.406-5(a)-(c).

<sup>32</sup> See *supra* note 22 for a description of what conduct violates the Drug-Free Workplace Act.

<sup>33</sup> See *supra* note 23 for a listing of unfair trade practices under Section 201 of the Defense Production Act.

<sup>34</sup> See *supra* note 24 for a discussion of what makes federal taxes delinquent for purposes of this provision of the FAR.

<sup>35</sup> See *supra* note 25 for more on qualifying overpayments.

- performance or closeout of a federal contract or subcontract and were discovered within three years of final payment<sup>36</sup>
- other offenses indicating a lack of business integrity or honesty that seriously affect the present responsibility of a contractor<sup>37</sup>

Agency officials may also suspend a contractor when they suspect, upon adequate evidence, that there exists “any other cause of so serious or compelling a nature that it affects the present responsibility of a ... contractor or subcontractor.”<sup>38</sup>

A suspension lasts only as long as an agency’s investigation of the conduct for which the contractor was suspended, or any ensuing legal proceedings. It may not exceed 18 months unless legal proceedings have been initiated within that period.<sup>39</sup> As discussed below, certain due process protections apply with suspensions,<sup>40</sup> and suspension-worthy conduct can be imputed, just like debarment-worthy conduct.<sup>41</sup>

### **Agency Discretion, Administrative Agreements, Continuation of Current Contracts, and Waivers**

Not all contractors who engage in conduct that constitutes potential grounds for debarment or suspension under the FAR are actually excluded from contracting with executive branch agencies. Nor does the debarment or suspension of a contractor guarantee that executive branch agencies do not presently have contracts with that contractor, or will not contract with that contractor before the exclusion period ends. Several aspects of the exclusion process under the FAR explain why this is so.

First, under the FAR, debarment or suspension of contractors is discretionary.<sup>42</sup> The FAR says that agencies “may debar” or “may suspend” a contractor when grounds for exclusion exist,<sup>43</sup> but it does not require them to do so.<sup>44</sup> Rather, the FAR advises agency officials to focus upon the public interest when making debarment determinations.<sup>45</sup> Because the public interest encompasses *both* safeguarding public funds by excluding contractors who may be nonresponsible *and* not excluding contractors who are fundamentally responsible and could otherwise compete for government contracts,<sup>46</sup> agency officials could find that contractors who

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<sup>36</sup> See *supra* note 26 for more on the history of this provision.

<sup>37</sup> 48 C.F.R. § 9.407-2(a)(1)-(9) (suspicion on adequate evidence) & 48 C.F.R. § 9.407-2(b) (indictment).

<sup>38</sup> 48 C.F.R. § 9.407-2(c).

<sup>39</sup> 48 C.F.R. § 9.407-4(a).

<sup>40</sup> 48 C.F.R. § 9.407-3(a)-(d). The due process protections with suspension are not as extensive as those with debarment because suspension is “less serious” than debarment.

<sup>41</sup> 48 C.F.R. § 9.407-5.

<sup>42</sup> 48 C.F.R. § 9.402(a) (“Debarment and suspension are discretionary actions.”).

<sup>43</sup> 48 C.F.R. § 9.406-2(a), 9.407-1(a).

<sup>44</sup> 48 C.F.R. § 9.406-1(a) (“The existence of a cause for debarment ... does not necessarily require that the contractor be debarred.”).

<sup>45</sup> *Id.* Suspensions under the FAR are based on the standard of the “government’s interests.” 48 C.F.R. § 9.407-1(a). This is broadly similar, but not identical, to the “public interest,” which is why the focus of this paragraph is limited to debarments.

<sup>46</sup> See, e.g., *Commercial Drapery Contractors, Inc. v. United States*, 133 F.3d 1, 14-15 (D.C. Cir. 1998) (“Suspending a contractor is a serious matter. Disqualification from contracting ‘directs the power and prestige of government’ at a (continued...)”).

engaged in exclusion-worthy conduct should not be excluded, particularly if they appear unlikely to engage in similar conduct in the future.<sup>47</sup> Any circumstance suggesting that a contractor is unlikely to repeat past misconduct—such as changes in personnel or procedures, restitution, or cooperation in a government investigation—can potentially incline an agency’s decision against debarment.<sup>48</sup> Moreover, exclusion can be limited to particular “divisions, organizational elements, or commodities” of a company if agency officials find that only segments of a business engaged in wrongdoing.<sup>49</sup> Other contractors generally cannot challenge agency decisions not to propose a contractor for debarment or not to exclude a contractor proposed for debarment.<sup>50</sup> They generally can only contest an agency’s determination of a contractor’s present responsibility,<sup>51</sup> which is required prior to a contract award.<sup>52</sup>

Second, agencies can use administrative agreements as alternatives to debarment.<sup>53</sup> In these agreements, the contractor generally admits its wrongful conduct and agrees to restitution; separation of employees from management or programs; implementation or extension of compliance programs; employee training; outside auditing; agency access to contractor records; or other remedial measures.<sup>54</sup> The agency, for its part, reserves the right to impose additional sanctions, including debarment, if the contractor fails to abide by the agreement or engages in further misconduct.<sup>55</sup> Such agreements are not explicitly provided for within the FAR, but are within agencies’ general authority to determine with whom and on what terms they contract.<sup>56</sup> Only the agency signing the agreement is a party to it, and other agencies would not necessarily have been aware of the agreement’s existence prior to enactment of the Duncan Hunter National Defense Authorization Act for FY2009. Commonly known as the Clean Contracting Act, Sections 871-873 of this act required the General Services Administration to establish a database that includes information related to contractor misconduct beyond that contained in the Excluded Party List System. Called the Federal Awardee Performance Integrity Information System

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single entity and may cause economic injury.”).

<sup>47</sup> 48 C.F.R. § 9.406-1(a). *See, e.g.,* Roemer v. Hoffman, 419 F. Supp. 130, 132 (D.D.C. 1976) (stating that the proper focus, in debarment determinations, is upon whether the contractor is presently responsible notwithstanding the past misconduct).

<sup>48</sup> 48 C.F.R. § 9.406-1(a)(1)-(10).

<sup>49</sup> *Id.* at (b). For example, in 2003, the Air Force suspended three units of Boeing Integrated Defense System in response to allegations that several former Boeing employees conspired to steal trade secrets from rival Lockheed Martin Corp. during a competition for the 1998 Evolved Expendable Launch Vehicle contract. *See, e.g.,* Air Force Lifts Suspension of Boeing from Eligibility for Federal Contracts, 83 *Fed. Cont. Rep.* 226 (Mar. 8, 2005).

<sup>50</sup> *See, e.g.,* Heckler v. Chaney, 470 U.S. 821, 832 (1985) (holding that agency refusal to act is generally not judicially reviewable).

<sup>51</sup> *See, e.g.,* Impresa Construzioni Geom. Domenico Garufi v. United States, 238 F.3d 1324, 1334-39 (Fed. Cir. 2001) (upholding a challenged agency responsibility determination).

<sup>52</sup> 48 C.F.R. § 9.103(b) (“No purchase or award shall be made unless the contracting official makes an affirmative determination of responsibility.”).

<sup>53</sup> Office of Management and Budget, *Suspension and Debarment, Administrative Agreements, and Compelling Reason Determinations*, Aug. 31, 2006, available at <http://www.whitehouse.gov/omb/memoranda/fy2006/m06-26.pdf> (“Agencies can sometimes enter into administrative agreements ... as an alternative to suspension or debarment.”).

<sup>54</sup> Alan M. Grayson, *Suspension and Debarment* 37-38 (1991).

<sup>55</sup> *See, e.g.,* United States Department of State, Bureau of Political Military Affairs, In the Matter of General Motors Corporation & General Dynamics Corporation, Oct. 22, 2004, available at [http://www.contractormisconduct.org/ass/contractors/26/cases/108/528/general-dynamics-4\\_ca.pdf](http://www.contractormisconduct.org/ass/contractors/26/cases/108/528/general-dynamics-4_ca.pdf).

<sup>56</sup> 48 C.F.R. § 1.601(a) (“Unless specifically prohibited by another provision of law, authority and responsibility to contract ... are vested in the agency head.”).

(FAPIS), this database, which apparently has not yet been compiled, will contain brief descriptions of all civil, criminal, and administrative proceedings involving federal contracts that resulted in a conviction or finding of fault, as well as all terminations for default, administrative agreements, and nonresponsibility determinations relating to federal contracts, within the past five years for all persons holding a federal contract or grant worth \$500,000 or more.<sup>57</sup>

Third, even when a contractor is debarred, suspended, or proposed for debarment under the FAR, an agency may generally allow the contractor to continue performance under any current contracts or subcontracts unless the agency head directs otherwise.<sup>58</sup> The debarment or suspension generally serves only to preclude an excluded contractor from (1) receiving new contracts or orders from executive branch agencies;<sup>59</sup> (2) receiving new work or an option under an existing contract; (3) serving as a subcontractor on certain contracts with executive branch agencies;<sup>60</sup> or (4) serving as an individual surety for the duration of the debarment or suspension.<sup>61</sup> Any contracts that the excluded contractor presently has remain in effect unless they are terminated for default or for convenience under separate provisions of the FAR.<sup>62</sup>

Finally, the FAR authorizes agencies to waive a contractor's exclusion and enter into new contracts with a debarred or suspended contractor.<sup>63</sup> For an exclusion to be waived, an agency head must "determine, in writing, that there is a compelling reason to do so."<sup>64</sup> Some agencies have regulations defining what constitutes a "compelling reason," while others do not.<sup>65</sup> Waivers

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<sup>57</sup> P.L. 110-417, §§ 871-73, 122 Stat. 4555-558 (Oct. 14, 2008). The act also calls for Interagency Committee on Debarment and Suspension to resolve which of multiple agencies wishing to exclude a contractor should be the lead agency in bringing exclusion proceedings and coordinate exclusion actions among agencies. *Id.* at § 873(a)(1)-(2). The involvement of the Interagency Committee is potentially significant, because although the FAR previously encouraged agencies to coordinate their exclusion efforts, it provided no requirement or mechanism for them to do so. *See* 48 C.F.R. § 9.402(c) (2008) ("When more than one agency has an interest in the debarment or suspension of a contractor, consideration shall be given to designating one agency as the lead agency for making the decision. Agencies are encouraged to establish methods or procedures for coordinating their actions."). The Federal Acquisition Regulation councils issued the final rule implementing this section on July 1, 2009. *See* Dep't of Def., Gen. Servs. Admin., & Nat'l Aeronautics & Space Admin., FAR Case 2008-028: Role of Interagency Committee on Debarment and Suspension, 74 Fed. Reg. 31,564 (July 1, 2009).

<sup>58</sup> 48 C.F.R. § 9.405-1(a). However, when the existing contracts or subcontracts are "indefinite quantity" contracts, an agency may not place orders exceeding the guaranteed minimum. 48 C.F.R. § 9.405-1(b)(1). Similarly, an agency may not (1) place orders under optional use Federal Supply Schedule contracts, blanket purchase agreements, or basic ordering agreements with excluded contractors or (2) add new work, exercise options, or otherwise extend the duration of current contracts or orders. 48 C.F.R. § 9.405-1(b)(2)-(3).

<sup>59</sup> Contractors under indefinite-quantity contracts may, however, generally receive additional orders so long as the total orders placed with the contractor does not exceed the minimum order under the contract. 48 C.F.R. § 9.405-1(b)(1).

<sup>60</sup> With subcontracts that are subject to agency consent, there can be no consent unless the agency head provides compelling reasons for the subcontract. 48 C.F.R. § 9.405-2(a). With subcontracts that are not subject to agency consent, there must be compelling reasons for the subcontract only when its amount exceeds \$30,000. 48 C.F.R. § 9.405-2(b).

<sup>61</sup> 48 C.F.R. § 9.405(a)-(c); § 9.405-2(a)-(b).

<sup>62</sup> *See* 48 C.F.R. § 49.000-607.

<sup>63</sup> 48 C.F.R. § 9.405(a).

<sup>64</sup> *Id.*

<sup>65</sup> For purposes of the Department of Defense, for example, compelling reasons exist when (1) goods or services are available only from the excluded contractor; (2) an urgent need dictates dealing with the excluded contractor; (3) the excluded contractor and the agency have entered an agreement not to debar the contractor that covers the events upon which the debarment is based; or (4) reasons relating to national security require dealings with the excluded contractor. Defense Federal Acquisition Regulation Supplement (DFARS) § 209.405(a)(2)(i)-(iv), *available at* <http://www.acq.osd.mil/dpap/dars/dfarspgi/current/index.html>.

are agency-specific and are not regularly communicated to other agencies, a situation which the Government Accountability Office has suggested remedying.<sup>66</sup> Agency determinations about the existence of compelling reasons are not, *per se*, reviewable by the courts; however, other contractors can challenge awards to formerly excluded contractors through customary bid protest processes.<sup>67</sup> Moreover, even when an agency does not waive a contractor's exclusion, it can reduce the period or extent of debarment if the contractor shows (1) newly discovered material evidence; (2) reversal of the conviction or civil judgment on which the debarment was based; (3) bona fide changes in ownership or management; (4) elimination of other causes for which the debarment was imposed; or (5) other appropriate reasons.<sup>68</sup>

**Table 2. Comparison of Statutory and Administrative Debarments**

Characteristic	Statutory Debarments	Administrative Debarments
Authority for debarments	Various statutes	FAR (Part 9); Office of Federal Procurement Policy Act
Basis for debarments	Specified violations of statutes (e.g., violations of federal or state controlled substance laws; certain violations of the Buy American Act, Clean Air Act, Clean Water Act; etc.)	(1) Contractors convicted of or found civilly liable for specified offenses; (2) agency officials found contractors engaged in specified conduct; or (3) other causes affect present responsibility
Debarring official	Generally head of the agency administering the statute	Head of the contracting agency or a designee
Purpose	Often mandatory, occasionally discretionary	Always discretionary
Scope	Punitive	Preventative; cannot be punitive
Duration	Prescribed by statute	Commensurate with the offense, generally not over 3 years
Extent	Government-wide	Executive branch agencies
Waiving official	Generally the head of the agency administering the statute	Head of the contracting agency

**Source:** Congressional Research Service.

## Contractors' Rights in Exclusion Proceedings

Although agencies generally have broad discretion in determining whether contractors should be excluded for particular conduct, contractors enjoy several types of protections in the exclusion process. Perhaps the foremost among these is an entitlement to due process of the law under the Fifth Amendment to the U.S. Constitution. Early government contractors were generally held to lack due process protections because contracting with the government was viewed as a privilege, not a right,<sup>69</sup> and persons were entitled to due process only when deprived of rights.<sup>70</sup> However,

<sup>66</sup> Gov't Accountability Office, Federal Procurement: Additional Data Reporting Could Improve the Suspension and Debarment Process 14 (2005), available at <http://www.gao.gov/highlights/d05479high.pdf>.

<sup>67</sup> 48 C.F.R. § 33.103 & 104. See CRS Report R40228, *GAO Bid Protests: An Overview of Timeframes and Procedures*, by Kate M. Manuel and Moshe Schwartz for more information on bid protests generally.

<sup>68</sup> 48 C.F.R. § 9.406-4(c)(1)-(5).

<sup>69</sup> See, e.g., *Perkins v. Lukens Steel Co.*, 310 U.S. 113, 129 (1940) (finding that "prospective bidders for contracts derive no enforceable rights against the agent [Secretary] for an erroneous interpretation of the principal's [Congress's] (continued...)").

this changed in 1964, with the decision by the U.S. Court of Appeals for the D.C. Circuit in *Gonzalez v. Freeman*.<sup>71</sup> Written by future Chief Justice Warren Burger, who was then a judge for the D.C. Circuit, the decision held that while contractors may not have a “right” to government contracts, “that cannot mean that the government can act arbitrarily, either substantively or procedurally, against a person or that *such a person is not entitled to challenge the processes and the evidence before he is officially declared ineligible for government contracts.*”<sup>72</sup> For this reason, the court found that the Commodity Credit Corporation (CCC) had improperly debarred the Thos. P. Gonzalez Corporation, in part, because the CCC failed to provide written notice of the charges against the contractor<sup>73</sup> and did not give the contractor “the opportunity to present evidence and to cross-examine adverse witnesses, all culminating in administrative findings and conclusions based upon the record.”<sup>74</sup> A subsequent decision by the D.C. Circuit in *Horne Brothers, Inc. v. Laird* held that contractors are also entitled to due process in suspension determinations,<sup>75</sup> although the court distinguished between suspensions of shorter and longer duration in finding that a contractor is entitled to pre-exclusion notice and an opportunity to be heard in suspensions of five months but not of three weeks.<sup>76</sup> Because of these and subsequent decisions,<sup>77</sup> the FAR currently provides that contractors must generally receive notice and an opportunity for a hearing before being debarred,<sup>78</sup> but can be suspended without prior notice or an opportunity to be heard so long as they are “immediately advised” of the suspension and allowed to offer information in opposition to the suspension within 30 days.<sup>79</sup>

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authorization.”). *See also id.* at 127 (“Like private individuals and businesses, the Government enjoys the unrestricted power to produce its own supplies, to determine those with whom it will deal, and to fix the terms and conditions upon which it will make needed purchases.”).

<sup>70</sup> *See, e.g.,* Ideal Uniform Cap Co., B-125183 (Mar. 1, 1956) (rejecting a challenge to a debarment based, in part, on the contractor’s reliance on the Fifth Amendment in refusing to produce business records subpoenaed by a Senate subcommittee). The debarring agency had failed to comply with its own regulations, which called for notice and an opportunity to respond prior to debarment, but the Government Accountability Office nonetheless denied the contractor’s protest on the grounds that “contracting with the Government is a privilege, not a legal right.” *Id.*

<sup>71</sup> 334 F.2d 570 (D.C. Cir. 1964).

<sup>72</sup> *Id.* at 574 (emphasis added).

<sup>73</sup> *Id.* at 574.

<sup>74</sup> *Id.* at 578. The court further found that the agency had violated the Administrative Procedure Act by debarring the contractor in the absence of regulations (1) authorizing debarment for the offenses in question and (2) establishing standards and procedures for the debarment process. *Id.* at 574-77.

<sup>75</sup> 463 F.2d 1268, 1271 (D.C. Cir. 1972) (“[A]n action that ‘suspends’ a contractor and contemplates that he may dangle in suspension for a period of one year or more, is such as to require the Government to insure fundamental fairness to the contractor whose economic life may depend on his ability to bid on government contracts.”).

<sup>76</sup> *Id.* at 1272-73.

<sup>77</sup> *See, e.g.,* ATL, Inc. v. United States, 736 F.2d 677, 685 (Fed. Cir. 1984) (“[W]here the Navy is taking a flat-out position denying fact-finding,” the suspended contractor is due a “prompt give-and-take, step-by-step cooperative process.”); *Transco Security, Inc. of Ohio v. Freeman*, 639 F.3d 318, 323 (6<sup>th</sup> Cir. 1981) (finding that the General Services Administration failed to provide adequate notice when it indicated that a company was suspended for alleged billing irregularities, but did not “specify the contracts allegedly affected by, or the approximate date of, the ‘misbillings.’”).

<sup>78</sup> 48 C.F.R. § 9.406-3(b)-(c). These procedures do not apply where the debarment is based upon convictions or civil judgments. In such cases, the process that the contractors received in their criminal or civil trial is deemed to constitute due process for purposes of debarment.

<sup>79</sup> 48 C.F.R. § 9.407-3(b)-(c). Specifically, the notice of the suspension must state that

... the contractor may, submit, in person, in writing, or through a representative, information and argument in opposition to the suspension, including any additional specific information that raises a genuine dispute over the (continued...)



The judicially developed doctrine of *de facto* debarment can also serve to protect contractors from improper exclusion in certain circumstances. While the possibility of *de facto* debarment often arises in connection with agency conduct that also deprives the contractor of due process,<sup>80</sup> the *de facto* debarment analysis focuses primarily upon conduct outside the debarment and suspension process that effectively excludes contractors, particularly conduct that “stigmatizes” the contractor.<sup>81</sup> The U.S. Court of Appeals for the D.C. Circuit’s decision in 1980 in *Old Dominion Dairy Products, Inc. v. Secretary of Defense* first found that an agency had improperly *de facto* debarred a contractor,<sup>82</sup> although earlier courts appear to have recognized the possibility of *de facto* debarment.<sup>83</sup> In *Old Dominion*, the Air Force determined the contractor to be nonresponsible for the award of one contract because of an audit report showing three irregularities in billing statements.<sup>84</sup> The Air Force never informed the contractor of these allegations, in part, because contractors do not routinely receive notice of nonresponsibility determinations concerning them.<sup>85</sup> However, the contractor was later determined to be nonresponsible for the award of a second contract by another contracting officer, who had received news of the earlier determination and relied upon it to conclude that the contractor lacked integrity.<sup>86</sup> The court found that the second nonresponsibility determination constituted an improper *de facto* debarment because the

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material facts; and [t]hat additional proceedings to determine disputed material facts will be conducted unless—(i) [t]he action is based on an indictment; or (ii) [a] determination is made, on the basis of Department of Justice advice, that the substantial interests of the Government in pending or contemplated legal proceedings based on the same facts as the suspension would be prejudiced.

*Id.* at § 9.407(c)(5)-(6). Some commentators have, however, objected that the FAR’s current provisions regarding suspension are inconsistent with the *Horne Brothers* decision and deprive the contractor of due process, in part, because they do not obligate the government to hold a hearing within 30 days of the suspension. *See, e.g.,* Todd J. Canni, *Shoot First, Ask Questions Later: An Examination and Critique of Suspension and Debarment under the FAR, Including a Discussion of the Mandatory Disclosure Rule, the IBM Suspension, and Other Noteworthy Developments* 38 *Pub. Cont. L.J.* 547, 603-605 (2008/2009).

<sup>80</sup> *See, e.g.,* Peter Kiewit Sons’ Co. v. U.S. Army Corps of Eng’rs, 534 F. Supp. 1139 (D.D.C. 1982), *rev’d on other grounds*, 714 F.2d 163 (D.C. Cir. 1983) (finding that a government directive to hold all awards to contractor “in abeyance” due to concerns about the contractor’s integrity, without providing notice or an opportunity to be heard, constituted *de facto* debarment and deprived the contractor of due process); Nathanael Causey, *Past Performance Information, De facto Debarments, and Due Process: Debunking the Myth of Pandora’s Box*, 29 *Pub. Cont. L.J.* 637, 676 (2000) (noting that *de facto* debarment and due process issues often arise in the same case). A court could, however, find an improper *de facto* debarment without finding a denial of due process. *See, e.g.,* Shermco Indus. v. Secretary of the Air Force, 584 F. Supp. 76 (N.D. Tex. 1984).

<sup>81</sup> *See* Causey, *supra* note 80, at 681 (“The key distinction between *de facto* debarment and denial of due process is the element of stigma.”). *De facto* debarment cases generally focus upon the contractor’s liberty interests in being able to challenge allegations about their integrity that could deprive them of their livelihood. *See* *Old Dominion Dairy Prods., Inc. v. Sec’y of Def.*, 631 F.2d 953, 955-56 (D.C. Cir. 1980) (“[W]hen a determination is made that a contractor lacks integrity and the Government has not acted to invoke formal suspension and debarment procedures, notice of the charges must be given to the contractor as soon as possible so that the contractor may utilize whatever opportunities are available to present its side of the story before adverse action is taken.”). Courts have recognized that contractors have such liberty interests, despite lacking property rights in government contracts. *See, e.g., Transco Sec.*, 639 F.2d at 321 (“[D]eprivation of the right to bid on government contracts is not a property interest.”).

<sup>82</sup> *Old Dominion*, 631 F.3d at 968.

<sup>83</sup> *See* *Myers & Myers, Inc. v. United States Postal Service*, 527 F.2d 1252 (2d Cir. 1975).

<sup>84</sup> *Old Dominion*, 631 F.3d at 960.

<sup>85</sup> *See* CRS Report R40633, *Responsibility Determinations Under the Federal Acquisition Regulation: Legal Standards and Procedures*, *supra* note 1, at 12.

<sup>86</sup> *Old Dominion*, 631 F.3d at 966 n.24 (noting that “the determination that *Old Dominion* lacked integrity had already been communicated through Government channels and undoubtedly would have been recommunicated every time [it] bid on a subsequent contract”).

contractor was excluded from government contracts without any notice of or opportunity to challenge the allegations against it.<sup>87</sup> Later judicial and administrative tribunals have similarly found that an agency improperly *de facto* debar a contractor based upon repeated nonresponsibility determinations based on the same information,<sup>88</sup> as well as through words or conduct evidencing an intent to exclude the contractor from government contracts because of concerns about its “integrity.”<sup>89</sup> Allegations that touch upon a contractor’s “integrity” can also include allegations about performance in areas that are key to the contractor’s field of operations.<sup>90</sup>

Additionally, in certain circumstances, agencies’ determinations to debar or suspend a contractor may potentially be found to violate the Administrative Procedure Act (APA), particularly if the agency excludes the contractor based upon circumstances that the agency was aware of when it previously found that contractor sufficiently responsible to be awarded a federal contract. Such a situation recently arose in *Lion Raisins, Inc. v. United States*, where the U.S. Court of Federal Claims found that the U.S. Department of Agriculture’s (USDA’s) suspension of a contractor for falsifying raisin certifications violated the APA, given that the USDA knew of the contractor’s conduct when making five prior determinations that the contractor was “responsible.”<sup>91</sup> According to the court,

[e]ven assuming plaintiff’s alleged conduct evidences “a lack of integrity or business honesty” so as to justify suspension, the court holds that [the suspending official] abused his discretion when he determined that the evidence of plaintiff’s lack of integrity in April 1998, which was known to the agency as of May 1999, “seriously and directly” affected plaintiff’s “present responsibility” as a Government contractor in February of 2001. The USDA awarded plaintiff five contracts between the completion of its investigation in May 1999 and its decision to suspend plaintiff in January 2001. The USDA statutorily was obligated to make an affirmative finding of plaintiff’s responsibility before awarding each of those contracts. In other words, five times between May 26, 1999, and February 1, 2001, the USDA itself affirmed that plaintiff’s business practices met the standards for present responsibility. Significantly, by the USDA’s own representations, it did so despite the possession of all the evidence that it would later use to suspend plaintiff. The court finds

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<sup>87</sup> *Id.* at 968.

<sup>88</sup> *See, e.g., Shermco Indus.*, 584 F. Supp. at 93-94 (“[A] procuring agency cannot make successive determinations of nonresponsibility on the same basis; rather it must initiate suspension or debarment procedures at the earliest practicable moment following the first determination of nonresponsibility.”); 43 Comp. Gen. 140 (Aug. 8, 1963) (finding that multiple determinations of nonresponsibility can be tantamount to debarment). However, multiple contemporaneous nonresponsibility determinations made on the same basis do not necessarily constitute *de facto* debarment, especially when the determinations are based on the most current information available. *See, e.g., Mexican Intermodal Equip., S.A. de C.V.*, Comp. Gen. B-270144 (Jan. 31, 1996) (two responsibility determinations were not “part of a long-term disqualification,” but were “merely a reflection of the fact that the determinations were based on the same current information.”); *Sermor Inc.*, Comp. Gen. B-219132.2 (Oct. 23, 1985) (finding five consecutive nonresponsibility determinations did not constitute *de facto* debarment).

<sup>89</sup> *See, e.g., Peter Kiewit Sons’ Co.*, 534 F. Supp. at 1139 et seq. (internal government directive to hold awards to the contractor “in abeyance” for an indefinite period); *Conset Corp. v. Cmty. Servs. Admin.*, 655 F.2d 1291 (D.C. Cir. 1981) (circulation of a memorandum alleging that a grant recipient had a conflict of interest, coupled with a subsequent refusal to approve the firm for a grant); *Related Indus., Inc. v. United States*, 2 Cl. Ct. 517 (1983) (contracting officer stated that “under no circumstances will he award any contract” to the contractor); *Leslie & Elliott Co. v. Garrett*, 732 F. Supp. 191 (D.D.C. 1990) (statement that the contractor was an “administrative burden” that lacked integrity).

<sup>90</sup> *See, e.g., Reeve Aleutian Airways, Inc. v. United States*, 982 F.2d 594 (D.C. Cir. 1993) (suspension by the Commercial Airlift Review Board for safety reasons imposed a stigma on the contractor that “implicates the carrier’s integrity”).

<sup>91</sup> 51 Fed. Cl. 238 (2001).

these facts dispositive of the issue of plaintiff's present responsibility. That [the suspending official] knew of the five interim contracts is demonstrated by their incorporation into the administrative record and by his reference to them in his final report and decision. That he nevertheless concluded that suspension was immediately necessary to protect government interests, without pointing to any event as to the issue of immediacy, was arbitrary and capricious.<sup>92</sup>

While the decision in *Lion Raisins* has been strongly criticized by some commentators<sup>93</sup> and distinguished by some courts,<sup>94</sup> it has been followed or cited approvingly by others<sup>95</sup> and could potentially be read to preclude agencies from debarment or suspending contractors under the FAR based on "stale" allegations of wrongdoing.<sup>96</sup>

## Recently Enacted and Proposed Amendments

The magnitude of federal spending on contracts, coupled with recent high-profile examples of contractor misconduct, has heightened congressional interest in debarment and suspension. As the largest purchaser of goods and services in the world, the federal government spent more than \$474.6 billion on government contracts in FY2009 alone.<sup>97</sup> Some of this spending was with contractors who reportedly received contract awards despite having previously engaged in serious misconduct, such as failing to pay taxes, bribing foreign officials, falsifying records submitted to the government, and performing contractual work so poorly that fatalities resulted.<sup>98</sup> Additionally,

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<sup>92</sup> *Id.* at 247-48 (internal citations omitted).

<sup>93</sup> See, e.g., Michael J. Davidson, Protest Challenges to Integrity-based Responsibility Determinations, 14 *Fed. Cir. Bar J.* 473, 499-500 (2004/2005) ("Contrary to the court's opinion, the contracting officer's affirmative responsibility determination is a decision by a single contracting officer, not that of the entire agency. The responsibility determination is limited to that specific contract and does not bind the agency on any responsibility determination beyond it. Moreover, while the lack of present responsibility determination by [a suspending or debarment official] binds the contracting officer and preempts the normal contracting officer responsibility determination, the converse is not true. To the extent the court decided otherwise, the case was wrongly decided.").

<sup>94</sup> See *Kirkpatrick v. White*, 351 F. Supp. 2d 1261 (N.D. Ala. 2004) (noting that the investigation underlying the suspension in the instant case was not completed until eight months after the suspension was imposed, unlike in *Lion Raisins*); *Gulf Group, Inc. v. United States*, 61 Fed. Cl. 338 (2004) (noting that the testimony of the decision maker in the instant case was not inconsistent with the documentation of his decision, unlike in *Lion Raisins*).

<sup>95</sup> See, e.g., *Todd Constr., L.P. v. United States*, 88 Fed. Cl. 235 (2009); *Arch Chems., Inc. v. United States*, 64 Fed. Cl. 380 (2005); *S.K.J. & Assocs. v. United States*, 67 Fed. Cl. 218 (2005).

<sup>96</sup> See Davidson, *supra* note 93, at 503 (suggesting that *Lion Raisins* gave agencies "greater incentive to act quicker" when determining whether to exclude a contractor). However, an argument could perhaps be made that this applies only to debarments or suspensions under the FAR's "catch-all" provisions, i.e., those due to "lack of business integrity or business honesty or imposed for 'any other cause of [a] serious or compelling nature.'" See 48 C.F.R. § 9.406-2(a)(5) & (c) (debarment); 48 C.F.R. § 9.407-2(c) (suspension).

<sup>97</sup> Federal Contract Awards by Extent of Competition, USASpending.gov, available at <http://www.usaspending.gov/index.php>, last accessed January 21, 2010.

<sup>98</sup> See, e.g., Project on Government Oversight, *Federal Contractor Misconduct: Failures of the Suspension and Debarment System* (2002), available at <http://www.pogo.org/pogo-files/reports/contract-oversight/federal-contractor-misconduct/co-fem-20020510.html> ("[S]ince 1990, 43 of the government's top contractors paid approximately \$3.4 billion in fines/penalties, restitution, and settlements. Furthermore, four of the top 10 government contractors have at least two criminal convictions. And yet, only one of the top 43 contractors has been suspended or debarred from doing business with the government, and then, for only five days."); Kathleen Day, Medicare Contractors Owe Taxes, GAO Says, *The Washington Post*, Mar. 20, 2007, at D1 (failure to pay taxes); Contract Fraud Loophole Exempts Overseas Work, *Grand Rapids Press*, Mar. 2, 2008, at A9 (bribery of foreign officials); Ron Nixon & Scott Shane, Panel to Discuss Concerns on Contractors, *New York Times*, July 18, 2007, at A15 (falsified records); Terry Kivlan, Shoddy (continued...)

recent news and inspector general reports allege that debarred or suspended parties improperly received federal contracts, including contracts funded under the American Recovery and Reinvestment Act.<sup>99</sup>

## Amendments Enacted in the 111<sup>th</sup> Congress

The 111<sup>th</sup> Congress has enacted several statutes addressing debarment and suspension of government contractors. Section 507 of the Omnibus Appropriations Act, 2009, (P.L. 111-8) and Section 507 of the Consolidated Appropriations Act, 2010, (P.L. 111-117) both require that contractors found to have intentionally affixed “Made in America” inscriptions or similar designations on ineligible products be debarred, under the FAR’s procedures, from contracts funded under the act.<sup>100</sup> Congress included similar provisions in prior legislation,<sup>101</sup> and such provisions arguably represent a hybrid of the statutory and administrative debarment regimes. Section 507 addresses a grounds for debarment that is included in the FAR,<sup>102</sup> but it removes the discretion that agency officials would have under the FAR in determining whether to debar the contractor for the conduct in question. Section 8038 of the Department of Defense Appropriations Act, 2010, (P.L. 111-118), in contrast, preserves the Secretary of Defense’s discretion in determining whether to debar contractors convicted of intentionally affixing “Made in America” inscriptions or similar designations on ineligible products.<sup>103</sup> Under Section 8038, the Secretary is required only to “determine, in accordance with section 2410f of title 10, United States Code, whether the person should be debarred from contracting with the Department of Defense.”<sup>104</sup>

Section 102(b) of the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (P.L. 111-195) requires that the FAR be amended so that agency heads must debar, for a period of up to three years, contractors found to have falsely certified that they have not made investments that directly and significantly contribute to Iran’s ability to develop petroleum resources.<sup>105</sup>

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Standards Blamed for Troop Electrocutions in Iraq, *National Journal’s Congress Daily*, PM Edition, July 11, 2008 (poor quality work causing fatalities).

<sup>99</sup> See, e.g., Coburn Questions Stimulus Funds Going to Suspended or Debarred Contractors, *Fed. Cont. Daily*, Nov. 3, 2009 (alleging that contracts worth \$24.2 million were awarded to two firms that had been suspended by the Air Force); U.S. Dep’t of Transportation, Office of the Inspector General, DOT’s Suspension and Debarment Program Does Not Safeguard Against Awards to Improper Parties, ZA-2010-034, Jan. 7, 2010, available at [http://www.oig.dot.gov/sites/dot/files/Suspension\\_and\\_Debarment\\_1.7.10\\_0.pdf](http://www.oig.dot.gov/sites/dot/files/Suspension_and_Debarment_1.7.10_0.pdf).

<sup>100</sup> P.L. 111-8, § 507, 123 Stat. 595 (Mar. 11, 2009); P.L. 111-117, § 507, 123 Stat. 3150 (Dec. 16, 2009). Legislation with similar provisions is also pending. See Commerce, Justice, Science, and Related Agencies Appropriations Act, 2011, § 507.

<sup>101</sup> See, e.g., Science, State, Justice, Commerce, and Related Agencies Appropriations Act, P.L. 109-108, Title VI, § 607, 119 Stat. 2335 (Nov. 22, 2005). Some statutes give agency officials more discretion in determining whether to debar contractors for intentional misuse of “Made in America” designations. See, e.g., P.L. 109-148, § 8041(b) (“If the Secretary of Defense determines that a person has been convicted of intentionally affixing a label bearing a ‘Made in America’ inscription to any product sold in or shipped to the United States that is not made in America, the Secretary shall determine, in accordance with section 2410f of title 10, United States Code, whether the person should be debarred from contracting with the Department of Defense.”) (emphasis added).

<sup>102</sup> See 48 C.F.R. § 9.406-2(a)(4) (allowing agencies to debar contractors for intentional misuse of the “Made in America” designation).

<sup>103</sup> P.L. 111-118, § 8038, 123 Stat. 3436-37 (Dec. 19, 2009).

<sup>104</sup> *Id.*

<sup>105</sup> P.L. 111-195, § 102(b), 124 Stat. 1321-22 (July 1, 2010). An earlier version of this bill provided for debarment for up to 15 years, but a shorter period was provided for in other legislation regarding Iran sanctions. See Accountability (continued...)

Section 815 of the National Defense Authorization Act for FY2010, similarly requires that the uniform suspension and debarment regulations be amended to clarify that debarred or suspended parties are excluded from:

... subcontracts at any tier, other than subcontracts for commercially available off-the-shelf items (as defined in section 35(c) of the Office of Federal Procurement Policy Act (41 U.S.C. 431(c))), except that in the case of a contract for commercial items, such term includes only first-tier subcontracts.”<sup>106</sup>

## **Amendments Proposed in the 111<sup>th</sup> Congress**

Members of the 111<sup>th</sup> Congress have also proposed several other amendments to debarment and suspension law. Some amendments would create new statutory debarments or suspensions for contractors who commit fraud;<sup>107</sup> have “seriously delinquent tax debt”;<sup>108</sup> have engaged in a pattern or practice of paying workers “poverty-level” wages;<sup>109</sup> cause serious injury or death to civilian or military personnel through gross negligence or reckless disregard of their safety;<sup>110</sup> repeatedly employ illegal immigrants;<sup>111</sup> lay off a disproportionate number of U.S. workers as compared to their total workforce;<sup>112</sup> falsely certify that they have not engaged in outsourcing in the prior fiscal year;<sup>113</sup> or egregiously or repeatedly fail to comply with regulations governing the conduct of contractors performing private security functions in areas of combat operations.<sup>114</sup> Other proposed legislation would

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for Business Choices in Iran Act, H.R. 3922, § 4 (amending the FAR to allow debarment for up to three years for false certifications that companies do not engage in otherwise impermissible business activities in Iran). *See also* Department of Defense Authorization Act for Fiscal Year 2011, H.R. 5136, § 805 (calling for the Department of Defense to debar, under the FAR’s procedures, contractors that falsely certify they do not engage in commercial activity in the energy sector of Iran).

<sup>106</sup> P.L. 111-84, § 815, 123 Stat. 2408 (Oct. 28, 2009) (amending the definition of “procurement activities” so that it explicitly includes certain subcontracts).

<sup>107</sup> Safety in Defense Contracting Act, H.R. 2825, § 2.

<sup>108</sup> Contracting and Tax Accountability Act, S. 265, § 3 (requiring that contractors who have “seriously delinquent tax debt” be proposed for debarment).

<sup>109</sup> An Act to Provide for Livable Wages for Federal Government Workers and Workers Hired Under Federal Contracts, H.R. 1334, § 3 (authorizing the Secretary of Labor to debar for up to five years contractors found to have engaged in a pattern or practice of paying “poverty-level” wages).

<sup>110</sup> Safety in Defense Contracting Act, H.R. 2825, § 2.

<sup>111</sup> Comprehensive Immigration Reform ASAP Act of 2009, H.R. 4321, § 201.

<sup>112</sup> Fighting for American Jobs Act of 2009, H.R. 4280, § 3 (“Notwithstanding any other provision of law, if, in a written certification provided to a Federal department or agency by a business enterprise under section 2(b), the percentage described in section 2(b)(1) is greater than the percentage described in section 2(b)(2), then the business enterprise shall be ineligible for further assistance from the department or agency, and shall be ineligible for assistance from any other Federal department or agency, unless and until the business enterprise provides to the department or agency involved a new written certification which provides that the percentage of the workforce of the business enterprise employed in the United States is equal to or greater than such percentage for the year preceding the year for which the written certification under section 2(b) was provided.”).

<sup>113</sup> Stop Outsourcing and Create American Jobs Act of 2010, H.R. 5622, § 4. This act would also authorize agencies to give “preference” to contractors that have not engaged in outsourcing in the prior fiscal year. *See id.*

<sup>114</sup> Department of Defense Authorization Act for Fiscal Year 2011, S. 3455, § 842.

1. amend the FAR to create additional grounds for administrative debarment (e.g., evasion of service of process or refusal to appear in suits brought against the contractor by the U.S. government or a U.S. citizen or national in connection with the performance of a federal contract);<sup>115</sup>
2. specify that certain conduct indicates a lack of business integrity subjecting the contractor to possible debarment under the FAR;<sup>116</sup>
3. require debarment, under the FAR's procedures, for certain conduct (e.g., fraudulently representing that a firm is a small business, knowingly employing aliens without proper employment authorizations);<sup>117</sup>
4. require the Secretary of Defense to debar BP and its subsidiaries from Department of Defense contracts if he finds that they are "no longer a responsible source";<sup>118</sup> and
5. require the Government Accountability Office to produce annual reports describing the extent to which contractors listed in the Excluded Parties List System receive federal contracts or are granted waivers by federal agencies.<sup>119</sup>

Another amendment would require agencies to report annually to Congress on debarments under the act, apparently in the hope that problematic agency actions could be more readily detected and corrected.<sup>120</sup>

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<sup>115</sup> "Rocky" Baragona Justice for American Heroes Harmed by Contractors Act, H.R. 2349, § 5. The debarment would be only from contracts for the same or similar goods or services that the contractor was providing when it was judged to have harmed someone. A similar bill has been introduced in the Senate. *See* S. 2782 (reintroducing S. 526). *See also* Combat Illegal Immigration Through Employment Verification Act, H.R. 5265, § 3 (debarment for certain violations involving employment of unauthorized aliens).

<sup>116</sup> A Bill to Enact Certain Laws Relating to Small Business as Title 53 U.S.C., H.R. 1983, § 10504 (misrepresentation of a firm's status as a small business, Historically Underutilized Business Zone (HUBZone) small business; woman-owned-and-controlled small business; or small business owned and controlled by socially and economically disadvantaged individuals); *id.* at § 10505 (falsely certifying compliance with the requirements of another section of the act); Construction Quality Assurance Act, H.R. 3492, § 6 ("The imposition of penalties on a contractor or subcontractor for failure to comply with the procedures for the substitution of subcontractors on 2 contracts within a 3-year period shall be deemed to be adequate evidence of the commission of an offense indicating a lack of business integrity or business honesty that seriously and directly affects the present responsibility of a Government contractor within the meaning of part 9.4 of the Federal Acquisition Regulation (Debarment, Suspension, and Eligibility) (48 CFR 9.4).").

<sup>117</sup> Indian Health Care Improvement Act Amendments, H.R. 2708, § 315 (requiring that contractors found to have intentionally affixed a "Made in America" designation on illegible products be debarred from procurements funded under the act); Fairness and Transparency in Contracting Act, H.R. 2568, § 9 (requiring debarment of contractors found to have fraudulently misrepresented their status as small businesses or otherwise violated the act); Border Control and Contractor Accountability Act of 2009, H.R. 1668, § 2 (requiring contractors found to have directly employed, or to have known of a subcontractor's employment of, an alien whose immigration status does not authorize employment).

<sup>118</sup> National Defense Authorization Act for Fiscal Year 2011, H.R. 5136, § 849.

<sup>119</sup> Federal Contracting Oversight and Reform Act of 2010, H.R. 5726, § 4(c).

<sup>120</sup> Border Control and Contractor Accountability Act of 2009, H.R. 1668, § 2. *Cf.* *United States v. New York & Puerto Rico Steamship Co.*, 239 U.S. 88, 93 (1915) (noting that the government needs the "protection of publicity").

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